

**AB 1629 IMPLEMENTATION
INSTRUCTIONS TO SUPPLEMENTAL SCHEDULE FOR CAPITAL ADDITIONS,
IMPROVEMENTS, AND REPLACEMENTS**

Note: Completed versions of the electronic schedule must be labeled with your facility's OSHPD number and the word "Capital" (e.g., 206xxxxxx_Capital). Do not alter the tab name or data descriptions in the Excel workbook. Do not add rows or columns to the Excel workbook. Any altered worksheet formats will be rejected and excluded from the rate calculation.

Costs reported on this voluntary Supplemental Schedule should reflect capitalized costs incurred in an arm's length transaction¹ during the provider's OSHPD Report ending within calendar year 2004 for major capital improvement, modification or renovation projects equal to or greater than \$500 per bed on a total licensed-bed basis (referenced as "\$500 per-bed cost threshold"). For the purpose of these supplemental schedules, a project is defined as: Construction costs incurred from a completed project that materially altered architectural, structural, mechanical, electrical, and Fire & Life safety details of the existing facility or structure. Further information on capital projects is included in the FREER Manual published by the Office of Statewide Health Planning and Development. Purchases of major items of equipment meeting the definition of a capital addition may be considered within the definition of "project", provided the equipment is related and made in conjunction with a plan that when aggregated meets the \$500 per-bed cost threshold. Small unrelated costs that are accumulated in order to meet the \$500 per-bed cost threshold are **not** considered to be a "project."

Total project costs that meet the definition above and the \$500 per-bed cost threshold will be converted into an equivalent number of "new beds," as illustrated on Attachment A of these instructions. The equivalent number of "new beds" will be averaged in with the age of existing beds in order to calculate the weighted average age of all beds. The weighted average age of all beds will represent the facility's age in the Fair Rental Value System (FRVS). Similarly, if a facility actually adds or replaces beds, these new beds will be averaged in with the age of the existing beds to determine the weighted average age of all beds for the FRVS per diem calculation.

No asset may be included on this Supplemental Schedule unless complete documentation for the cost and year of purchase or construction is maintained. For the actual addition of new beds, all licensing documentation must also be available. All reported information will be subject to audit or review. Any data determined to be inaccurate, incomplete or unrepresentative will not be considered in the FRVS rate calculation.

For any change of ownership after January 1, 2004, the cost basis of any asset shall be the lesser of the allowable acquisition cost of such asset of the first owner of record or the acquisition cost of such asset to the new owner. Refer to CMS Publication 15-1, Section 132 for additional information.

¹ An "arm's length transaction" is a transaction between a buyer and a seller both free to act, each seeking his own best economic interest. A transaction between related parties may be considered to be an arm's length transaction if it meets the exception identified in CMS Publication 15-1, Section 1010.

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For the purposes of this Supplemental Schedule, the following definitions apply:

- **Capital Addition** - land, buildings, building equipment and major moveable equipment that have an estimated useful life at the time of the acquisition of at least two years, a historical cost of at least \$5,000 per item, and are not considered a replacement of a previously acquired asset.
- **Capital Improvement** - betterment of land, buildings, building equipment, major moveable equipment or leasehold property that: either extends the useful life by at least two years beyond the original useful life of such asset or significantly increases the productivity over the original productivity of such asset; and has a cost of at least \$5,000 per item and is not considered a replacement of a previously acquired asset.
- **Capital Replacement** - land, buildings, building equipment, major moveable equipment and leasehold improvements that would be classified as a capital addition or improvement under the above definitions, except that such asset is considered a replacement of a previously acquired asset. A replacement is an asset that fills the place, position or purpose once filled by an asset that has been lost, destroyed, discarded or is no longer usable or adequate.
- **Land** includes the land owned and used by the operation. The cost of land includes off-site sewer and water lines, public utility charges necessary to service the land, governmental assessments for street paving and sewers, curbs and sidewalks of which the provider is responsible for replacement and other land expenditures of a non-depreciating nature.
- **Depreciable Land Improvements** of which the provider is responsible for replacement, including paving, tunnels, underpasses, on-site sewer and water lines, parking lots, shrubbery, fences, walls, etc.
- **Building** includes, in a restrictive sense, the basic structure of shell land betterments and additions thereto. The remainder is identified as fixed or building equipment.
- **Leasehold Improvements** include betterments and additions made to leased property by the lessee which may be depreciated over the useful life of the improvement or the remaining term for which the provider will have use of the property, whichever is shorter. The option to use the shorter remaining life of the lease is allowed only if the intention that the lease will not be renewed is confirmed in writing.
- **Fixed Equipment** is, in general, affixed to the buildings and not subject to transfer, including wiring, electrical fixtures, plumbing, elevators, heating and air conditioning systems, nurse call systems, etc.
- **Moveable Equipment** is, in general, capable of being moved within or from the building, including beds, desks, wheelchairs, tables, washers, ranges, refrigerators and office equipment.

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Section I: Capital Additions and Improvements (Excluding Replacements)

Part A: Skilled Nursing Facility (SNF) Bed Additions Over Time

If your facility has placed new licensed SNF beds into service **between the original license date of the facility and the facility's OSHPD Report ending within calendar year 2004**, you should complete Part A, lines 1 through 5, for each SNF bed addition project. Each column should be independently completed per each historical SNF bed addition project (in left-to-right order, starting with the most recent bed addition project). If multiple SNF bed addition projects have been completed historically, enter each one separately per column in the spaces provided. Enter the following information in Section I, Part A:²

1. Number of Beds – For each SNF bed addition project, include the number of new licensed SNF beds that were put into service since the facility's original license date.
2. Date Placed into Service – For each SNF bed addition project, enter the date that the licensed SNF beds were placed into service and available for patient use.
3. Total Costs – For each SNF bed addition project, enter the total amount incurred to complete the addition.
4. Amount Financed – For each SNF bed addition project, enter the total amount that was financed.
5. Section III Reference – Enter the reference code for the loan in Section III that pertains to the financed amount reported above. For example, if the financing information for the amount noted in line 4 above is located on line A of Section III, report "A" as the Section III Reference.

Facilities reporting SNF bed additions in Part A must maintain all historical licensure information related to each project reported. This information must be available for State and/or federal audit and/or review.

Part B: Other Additions or Improvements Completed in Calendar Year 2004

If your facility made any capital additions or improvements, excluding actual SNF bed addition projects, during the facility's OSHPD reporting period **ending within calendar year 2004** that meet the definitions included in these instructions,³ enter the data requested in Section I, Part B, Other Additions or Improvements Completed in Calendar Year 2004. The asset descriptions must

² If licensed SNF beds have not been added to the facility since the facility's original license date, you may skip Part A.

³ In addition to meeting the definitions on pages one and two of these instructions, the capital addition or improvement must be equal to or greater than \$500 per bed, on a total licensed-bed basis. For example, if your facility has 50 licensed beds, the capital addition or improvement must be equal to or greater than \$25,000 (50 licensed beds * \$500 per bed).

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be specifically detailed and not be general aggregations, such as “equipment purchases.” For the “Section III Reference” column, note the following Section III Instructions.

Section II: Capital Replacements in Calendar Year 2004

If applicable, enter the data requested in Section II, Part A (Acquisition Costs and Depreciation for *Replacement* Asset) for each capital replacement acquired during the facility’s OSHPD reporting period **ending within calendar year 2004**.⁴ All replacements must meet the definitions included in these instructions, and have a cost equal to or greater than the \$500 per-bed cost threshold. The asset descriptions must be specific and not be general aggregations, such as “equipment replacement.”

For each replacement asset listed in Section II, Part A above, the facility must complete Section II, Part B for each corresponding retired asset. Part B (Acquisition Costs and Depreciation of *Retired* Asset) includes a column titled “Section II, Part A Line No. Reference” whereby the provider must reference the replacement asset (in Part A) with the asset that is being retired (in Part B) using the specific line number reported in Part A.

Both Part A and B must be completed if your facility is reporting replacement assets in Section II, Part A.

Section III: Financing Information (Required for Financed SNF Bed Addition Projects Reported in Section I and Capital Replacements Reported in Section II.A)

In this section, report information detailing each loan obtained to finance the reported capital additions, improvements, or replacements. The line number “Reference” in Section III (e.g., A, B, C, D, etc.) should be referenced to Section I, Parts A and B, and Section II, Part A, as indicated on the Supplemental Schedule.

⁴ Capital replacements are not additions or improvements, but rather they are assets acquired to fill the place, position or purpose once filled by an asset that has been lost, destroyed, discarded or is no longer usable or adequate.

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Attachment A: Example of FRVS Per Diem Calculation with Improvement Modifications

Example Assumptions

Original Building Assumptions Remain Static	
Cost of Remodel	\$ 500,000
Remodel Cost Per Bed (\$500,000 ÷ 99 beds)	\$ 5,051
Base Value Per New Bed Prior to Improvement Modification (gross value ÷ 99 beds)	\$ 56,201

Modified Facility Age Calculation

Equivalent Number New Beds (cost of remodel ÷ base value/bed before improvement)	8.9
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Weighted Average Age

Prior to Improvement – 99 Beds x 25 years	2,475
Resulting from Improvement – 8.9 Beds x 0 years	<u>0</u>
Total = 107.9 Beds	2,475
Weighted Average Age = 2,475/107.9	22.9 Years

Modified Base Value Computation

Gross Value (Building and Equipment Value Prior to Improvement) ⁵	\$ 5,563,919
Adjusted Depreciation = 1.8% x 22.9 years x gross value	<u>\$ 2,293,447</u>
Modified Net Value	\$ 3,270,472
Add: Land Value	<u>\$ 516,792</u>
Modified Total Base Value	<u>\$ 3,787,264</u>

Modified FRVS Per Diem Calculation

FRVS Per Diem (rental factor x modified base value)/(total resident days)	<u>\$ 8.63</u>
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⁵ Building value is based on 400 square feet * number of beds prior to improvement * cost/square foot based on the RS Means Building Construction Cost data * facility location factor. Equipment value is based on \$4,000 per bed (prior to improvements).